1999 ANNUAL REPORT

FOCUSED ON THE FUTURE

CONSOLIDATED Beacon RESOURCES LTD

CORPORATE PROFILE

Consolidated Beacon Resources Ltd. is active in the petroleum industry, in exploration and production of oil and gas, and through its wholly owned subsidiary, Elliott Industrial Petroleum Ltd., in manufacturing, marketing and distributing specialty engine oils and industrial lubricants.

Formed in 1990 by the amalgamation of two junior oil and gas exploration companies, Beacon continues to be involved in exploration and production in Alberta and Saskatchewan. As well, the Corporation has acquired a major onshore, exploratory land holding near Truro, Nova Scotia.

In 1999, Consolidated Beacon through its subsidiary Elliott Industrial began strengthening its position in the petroleum products industry by expanding Elliott's regional distribution network and taking advantage of an opportunity to align the company with a major North American manufacturer of specialty oils and lubricants.

Year End: December 31

CDNX: KBC

ANNUAL MEETING

The Annual Meeting of the Shareholders of Consolidated Beacon Resources Ltd. will be held at 10:00 a.m., June 29, 2000, at Bennett Jones, 4500 Bankers Hall East, 855 - 2nd Street S.W., Calgary.

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1999 Highlights

DEVELOPING THE PLATFORM TO TAKE US INTO THE FUTURE

In 1999, a volatile year for the oil and gas industry and especially junior companies, Consolidated Beacon Resources Ltd. managed to hold its own and, in fact, entered the year 2000 in a strong position – focused and ready to capitalize on opportunities in its future. The following are among the activities in which management was involved during the year and into the first quarter of 2000.

- Shifted oil and gas focus in Alberta and Saskatchewan to the downstream side of the industry.
- Expanded activities in manufacturing, marketing and distribution of specialty engine oils and industrial lubricants.
- Acquired a 15% interest in Petron Plus Canada which has distribution rights for a line of high-performance specialty lubricants for the automotive aftermarket, industrial uses, and motor sports industries.
- Continued the evaluation and rationalization of oil and gas exploration properties in Alberta and Saskatchewan.
- Successfully finalized negotiations for access to a core segment of the Nova Scotia lands, clearing the way for the initiation of exploration.
- Initiated negotiations with potential joint venture partners to participate in an exploration program on the Corporation's onshore land holdings in Nova Scotia.

President's Report

To The Shareholders:

Through prudent asset management, evaluation and rationalization, the Corporation has survived one of the most difficult years in the oil and gas exploration industry's recent history; and, by capitalizing on emerging opportunities in the early part of the year 2000, Consolidated Beacon Resources Ltd. has entered the new century in a strong position.

Key Development Strategies

Exploration and production, the upstream segment of the oil and gas industry, saw high volatility in oil prices which in early 1999 were at a 20 year low and then climbed to new highs in the latter part of the year and into early 2000. This impacted both our oil and gas exploration thrust and the development of Elliott Industrial Petroleum's downstream operations. We responded with further rationalization of Consolidated Beacon's exploration and oil production assets, and by shifting our primary focus to the downstream side of the oil and gas industry. With this refocusing we believe that the Corporation has now established a platform that can take us into the future.

Solid Performance from Elliott Industrial Petroleum Ltd.

Elliott was impacted in 1998 and the first half of 1999 by low prices for heavy crude oil as many of Elliott's heavy oil customers opted to shut-in their oil wells, restricting their operations and therefore requiring less industrial lubrication.

As prices for crude oil increased in 1999, a corresponding increase occurred in sales for Elliott. On an annualized basis, the company achieved a 20% increase in sales in the last four months of 1999. The outlook for Elliott's products – both its own manufactured products and the Pennzoil™ and Quaker State® products the company distributes throughout Saskatchewan – is positive.

Expansion of Downstream Opportunities

Through an agreement signed with Petron Plus Canada Ltd. in January 2000, Consolidated Beacon and Elliott have become involved in the North American marketing and distribution of Petron Plus™ products, specialty lubricants for the automotive aftermarket, industrial uses, and motor sports industries.

Petron Plus Canada holds exclusive distribution rights for Canada and selected rights in the United States for the full line of lubrication products manufactured and distributed throughout the world by Petron Plus International Inc. The manufacturing company, located in Kansas, USA, has established an international reputation for its high-quality, high-performance products.

The agreement with Petron Plus Canada entitles Consolidation Beacon to earn up to a 30% equity interest in Petron Plus Canada, in exchange for loans up to $500,000.

On March 1, 2000, Beacon made the first $250,000 loan to Petron Plus Canada which will repay the loan in quarterly installments. At payout, Beacon will retain a 15% equity interest. Subject to the advance of the second $250,000 loan, the Corporation will be eligible to recover the loan and retain a further 15% equity interest.

The majority of the funds loaned by Beacon are being used for marketing expenses associated with the development of new markets for Petron Plus™ products, including the production of an infomercial for television broadcast.

Infomercial advertising and marketing will commence during the second quarter of 2000 with a test marketing program in selected U.S. television market areas. The current marketing plan calls for expansion across the United States and, as brand recognition grows, entering into the retail market.

Exploration Focus

Our oil and gas exploration activities are now concentrated on our major exploration prospect located onshore Nova Scotia. The Corporation's net acreage position of 202,471 acres gives Consolidated Beacon a strong representation in the Maritimes Basin with tremendous upside potential to the Corporation. In March 2000 following extensive negotiations, the Corporation was granted access to a core segment of the acreage underlying Canadian Forces Base Debert. Negotiations are in progress with potential joint venture partners for their participation in a geological and geophysical exploration program planned for late 2000.

The Nova Scotia exploration prospect is a high-risk high-reward project. We plan to mitigate financial risk to Beacon through the acquisition of joint venture partners and the farming out of exploration costs.

Outlook for 2000

We are focused on the opportunities we have within the short-term future with Elliott and Petron Plus™ and the potential for mid-term success with our Nova Scotia exploration program. Consolidated Beacon continues to hold a 40% interest in Classic Animation Productions Inc. which is actively seeking joint venture funding to complete its two major projects.

The Corporation looks forward to reporting on our future activities.

On behalf of the Board of Directors,

Vernon E. Gerlitz
President & Chief Executive Officer

Calgary, Alberta — April 28, 2000

Operations Report

DOWNSTREAM ACTIVITIES

Acquired by Consolidated Beacon in 1997, Elliott Industrial Petroleum Ltd. is based near Lloydminster, the centre of the heavy oil producing district of Alberta and Saskatchewan. At its manufacturing and blending facility in Maidstone, Saskatchewan, Elliott Industrial produces specialty oils and lubricants, which are blended to suit specific customer needs.

Products such as Hydra-Blue MG36 Hydraulic Oil, High Performance 15w40 Motor Oil, Natural Gas and LPG Oils and AFX, the Oil Anti-freeze, as well as lubricants for other heavy duty industrial applications are manufactured at the Elliott plant in Maidstone for use in the immediate heavy oil producing area. Elliott manufactured products are also delivered to distributors in Saskatchewan and Alberta. In addition to producing and marketing its own products, Elliott Industrial is a non-exclusive distributor of Pennzoil™ and Quaker State® products in Saskatchewan.

Expansion of Elliott's Customer Base

Traditionally, Elliott Industrial's products have been used primarily by trucking, oil production, and energy service companies involved in the production of heavy oil. With the introduction of a enhanced marketing program in 1999, Elliott Industrial is expanding its customer base to include the agricultural sector.

In 1999, implementation of a cost-cutting strategy and improvements in overall plant efficiencies have resulted in substantial savings in administration and operating costs. Rationalization of inventory by using just-in-time supplier ordering and economical volume purchasing has resulted in significant inventory reductions (from $513,000 in 1998 to $433,000 in 1999). Information technology systems are in place to access the potential of e-commerce.

Sales Increase In 1999

With wellhead oil prices increasing in the last half of 1999, heavy oil producers began putting previously shut-in wells back onto production, which resulted in improved markets for Elliott Industrial's products. This was reflected in a substantial increase in the company's sales in the last quarter of 1999. Sales in 1999 were $1.4 million, compared to $1.2 million in 1998, which represents a 20% increase on an annualized basis.

Sales in the first three months of the year 2000 have maintained the upward momentum. The company expects this trend to continue and is forecasting another $200,000 increase in sales in 2000.

Environmentally, about 75% of the company's packaging material, from drums to bottle containers, is recycled. Elliott Industrial also has an internal recycling program for customers using the company's hydraulic fluids. Elliott Industrial neither recycles used motor oils nor handles any materials considered hazardous under the Hazardous Goods Act.

The Petron Product Line Opportunity

Consolidated Beacon owns an interest in Petron Plus Canada and, through the facilities of Elliott Industrial, will be distributing Petron Plus™ products in Canada.

Petron International Inc., located in Hutchinson, Kansas, USA, is an innovator of specialty chemicals and lubricants for the automotive aftermarket and for industrial use. Founded in 1979, Petron International produces over 150 products and is internationally known as a leader in advanced lubrication technology.

Petron Plus™ is an all-natural petroleum product whose unique qualities include superior friction reduction. Not an oil additive, Petron Plus™ blends with virtually any oil or synthetic lubricant and uses the lubricant as a carrier to the metal surfaces of an engine or machinery requiring lubrication, without altering or damaging the chemistry of the lubricant. In automotive applications, fuel savings from five to 25% have been achieved.

EXPLORATION & DEVELOPMENT ACTIVITIES

Through purchases at Petroleum and Natural Gas Rights Sales in the Provinces of Alberta and Saskatchewan and pursuant to Joint Venture drilling, the Corporation owns Petroleum & Natural Gas Rights in five properties in Alberta and one in Saskatchewan. In addition, Consolidated Beacon holds a major position in exploratory lands onshore Nova Scotia.

The Corporation is the operator of the Ingoldsby, Saskatchewan property and the Truro, Nova Scotia property.

The Corporation has disposed of its production at North Butte, Saskatchewan, and Giroux Lake, Alberta. During 1999 Consolidated Beacon recognized a loss on disposal of oil and gas properties of $487,029.

Nova Scotia Prospect

The Corporation holds two exploration agreements onshore Nova Scotia. The lands are within the Maritimes geological basin which is relatively unexplored. The 70,000 square mile basin has had approximately 20 wells drilled to depths over 1000 feet to evaluate the Permo Carboniferous formation, the Corporation's target zone. This equates to about one well per 3,500 square miles.

The Mississippian formation, which underlies the Permo Carboniferous formation, is also present within the Corporation's lands and is a secondary target for exploration. Geophysical data indicate that up to 25,000 feet of sediments are present in the Maritimes Basin. An offshore well in the Maritimes Basin drilled by Fina-Hudson's Bay tested over five million cubic feet of gas from the Permo Carboniferous. The Maritimes Stoney Creek field in nearby New Brunswick has produced about 30 billion cubic feet of gas and nearly one million barrels of oil from the Mississippian formation. There are surface oil seeps within the basin.

Acquired seismic data on Consolidated Beacon's lands suggest the presence of a series of thick sandstones within the Permo Carboniferous formation which is present over a portion of the lands, in proximity to the now decommissioned Debert Military Base.

Significant features of the Exploration Agreements include:

- Lands are in the second year of the exploration agreements as to work requirements.
- Beacon owns 202,471 net acres.
- Minimum of $175,000 in work requirements in year 2000.
- Annual rentals $0.05 per acre.
- Two years of royalty free production from date of grant of first production lease.
- 10% royalty after the two year royalty holiday.
- Maritimes and Northeast Pipeline to Boston, USA, commissioned late 1999 passes near Consolidated Beacon's lands. Lateral pipeline to Truro, Nova Scotia, planned for 2000 will reach the Corporation's lands.
- Surface access to Debert National Defence lands acquired March 2000.
- Proposed seismic program planned for late 2000.
- Potential joint venture partners currently reviewing the Corporation's technical data.
- Exploratory well to 8,000 feet depth proposed for year 2001 to test the Permo Carboniferous formation.
- Recent land acquisition by others of several million acres adjoining and close to Consolidated Beacon's lands.
- Acquired seismic data indicates potential for up to 500 billion cubic feet of gas potential at Debert structural feature.

Ingoldsby, Saskatchewan – Township 4 Range 32 West 1st Meridian

The Ingoldsby prospect is situated on the southeast Saskatchewan producing trend. Light gravity oil is produced from the Frobisher-Alida formation, which is of Mississippian age. The 100% owned lands at Ingoldsby are comprised of 160 acres, which were purchased at a Crown Land Sale. These lands are bounded on the north by impermeable cap-rock and are offset by oil production about 320 feet to the west and approximately 650 feet to the east. A well drilled by Mobil at 8-14-4-32 W1, about 650 feet south of Beacon's lands, produced oil from perforations at an initial rate of 33 bopd cutting 2.3% water. Logs and testing through perforations show the Mobil well at 8-14 to have 12 feet of oil pay. A proposed drilling location on the Corporation's land at 9-14-4-32 W1 is mapped to be about 25 feet structurally higher than the 8-14 well.

Leduc, Alberta – Township 49 Range 26 West 4th Meridian

The 640 acre Leduc prospect has been farmed out, reserving to the Corporation a 7.5% overriding royalty on the shallow Belly River zones and a 3.5% overriding royalty on zones below the Belly River. A shallow test was drilled unsuccessfully in 1999. The deeper horizons that were to be drilled in 1999 have been cancelled by the Operator and may be resurrected at a later date.

Nipisi, Alberta – Township 79 Range 9 West 5th Meridian.

Consolidated Beacon has elected to not participate in further evaluations of the prospect and has surrendered its interest.

Goose River, Alberta – Township 67 Range 18 West 5th Meridian

The Corporation has earned a 4.17% interest in ten sections of land by expending funds for the drilling of a well on the lands. Drilling was completed in the spring of 1998. Further testing of the well in 1999 resulted in the abandonment of the well.

Mitsue, Alberta – Township 73 Range 5 West 5th Meridian

The Mitsue prospect resulted in a marginal oil well and the Corporation elected to not participate in further costs of evaluations and has relinquished its interest in the prospect.

CLASSIC ANIMATION PRODUCTIONS INC.

The Corporation maintains its 40% equity interest in Classic Animation Productions Inc., a company that produces original animated children's direct-to-video releases. Classic's two current major productions are "The Velveteen Rabbit" and "The Holiday Adventures of Stitches". To date, all pre-production for the "The Velveteen Rabbit" has been completed and approximately 51 minutes of the total 85 minutes has been animated. The cost to complete this production is $2,000,000. "The Holiday Adventures of Stitches" is an animated series in six parts, each 25 minutes in length, centering on a delightful rabbit. Approximately 40% of the series has been completed. The cost to complete the series is $1,350,000. Management of Consolidated Beacon is working with the Classic Animation principals to raise the required funding to complete these two productions.

Management's Report

OUR MISSION

With long-term commitment strategies, Consolidated Beacon will continue to pursue the investment of its available cash flow, profit and equity resources in an environmentally and publicly responsible manner to:

- develop revenue-generating assets by utilizing our strategic advantages
- create acceptable rates of return on invested funds
- develop shareholder value.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders at the Company's most recent annual general meeting, to examine the financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The audit committee of the Board of Directors, with a majority of its members being outside directors, has reviewed the financial statements including notes thereto, with management and PricewaterhouseCoopers LLP. The financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

Vernon E. Gerlitz
President and C.E.O

Auditors' Report

To the Shareholders of
Consolidated Beacon Resources Ltd.

We have audited the consolidated balance sheets of Consolidated Beacon Resources Ltd. as at December 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
May 5, 2000

CONSOLIDATED BEACON RESOURCES LTD.

Consolidated Balance Sheets

As at December 31, 1999 and 1998

	1999	1998
Assets		
Current assets		
Cash	$ 164,654	$ 26,808
Accounts receivable	422,806	241,661
Accrued interest receivable	-	35,375
Inventory (note 3)	443,773	512,898
Current portion of notes receivables (note 5)	277,933	277,933
	1,309,166	1,094,675
Capital assets (note 4)	1,302,023	2,253,273
Cash held in trust (note 8)	189,816	180,437
Notes receivable (note 5)	497,067	497,067
Deferred expenditures (note 6)	1,014,926	1,255,788
Goodwill – net of amortization of $50,665 (1998 - $59,108)	396,871	447,536
	4,709,869	5,728,776
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	574,168	1,003,569
Bank debt (note 7)	471,636	438,986
Current portion of long-term debt (note 8)	103,800	99,757
Current portion of deferred financial facility fee (note 5)	31,250	31,250
Income taxes payable	163,516	-
	1,344,370	1,573,562
Deferred financial facility fee (note 5)	76,979	76,979
Deferred income taxes	171,555	171,555
Due to related party (note 9)	19,584	19,584
Note payable (note 10)	200,000	200,000
Long-term debt (note 8)	4,765	108,577
	1,817,253	2,150,257
Shareholders' Equity		
Capital stock (note 11)	3,310,416	3,242,834
(Deficit) retained earnings	(417,800)	335,685
	2,892,616	3,578,519
	4,709,869	5,728,776

Approved by the Board of Directors

Director Director

CONSOLIDATED BEACON RESOURCES LTD.

Consolidated Statements of Earnings and Retained Earnings

For the years ended December 31, 1999 and 1998

	1999	1998
Revenue		
Product sales	$1,485,744	$1,243,302
Cost of goods sold	829,779	676,812
Gross margin on product sales	655,965	566,490
Gain on sale of petroleum properties	153,860	-
Gain on forgiveness of debt	86,000	-
Interest income	24,054	109,014
Royalty income	23,528	44,232
Other	9,140	4,264
Gain on sale of investment	-	642,488
Facility fee income	-	16,771
	952,547	1,383,259
Expenses		
General and administrative (note 13)	420,743	635,183
Loss on disposal of petroleum and natural gas properties (note 4)	487,029	-
Impairment of deferred expenditures (note 6)	240,000	-
Selling costs	100,107	119,104
Depreciation and depletion	97,481	127,556
Plant operating costs	95,391	219,380
Interest expense	51,100	87,186
Amortization of goodwill	50,665	50,664
	1,542,516	1,239,073
(Loss) earnings before income taxes	(589,969)	144,186
Income taxes (note 12)		
Current	163,516	-
Deferred	-	55,000
Net (loss) earnings for the year	(753,485)	89,186
Retained earnings – Beginning of year	335,685	246,499
(Deficit) retained earnings – End of year	(417,800)	335,685
Net (loss) earnings per common share	(0.09)	0.01

CONSOLIDATED BEACON RESOURCES LTD.

Consolidated Statements of Cash Flows

For the years ended December 31, 1999 and 1998

	1999	1998
Cash provided by (used in)		
Operating activities		
Net (loss) earnings for the year	$(753,485)	$ 89,186
Charges (credits) to earnings not involving cash		
Gain on sale of investment	-	(642,488)
Loss on disposal of petroleum and natural gas properties	487,029	-
Impairment of deferred expenditure	240,000	-
Gain on sale of petroleum properties	(153,860)	-
Depreciation and depletion	97,481	127,556
Amortization of goodwill	50,665	50,664
Deferred income taxes	-	55,000
Financing fee	-	(16,771)
	(32,170)	(336,853)
Net change in non-cash working capital balances related to operations	169,213	445,014
	137,043	108,161
Financing activities		
Proceeds from issuance of common shares	67,582	264,535
(Decrease) increase in long-term debt	(99,769)	208,334
Increase in bank debt	32,650	269,199
Cash held in trust	(9,379)	(12,937)
Decrease in note payable	-	(200,000)
	(8,916)	529,131
Investing activities		
Acquisition of capital assets	(159,641)	(1,391,609)
Deferred expenditures	-	(260,700)
Proceeds from disposal of petroleum and natural gas properties	153,860	67,500
Proceeds from disposal of capital assets	15,500	-
Proceeds from disposal of investments	-	682,300
Note receivable	-	(650,000)
	9,719	(1,552,509)
Increase (decrease) in cash during the year	137,846	(915,217)
Cash – Beginning of year	26,808	942,025
Cash – End of year	164,654	26,808
Supplemental information		
Interest paid	56,680	87,186

1 Basis of presentation

The consolidated financial statements of Consolidated Beacon Resources Ltd. ("Consolidated Beacon" or "the company") include the accounts of the company and its wholly owned subsidiary, Elliott Industrial Petroleum Ltd. ("Elliott"). The company also proportionately consolidates the accounts of Classic Animation Productions Inc. ("Classic") in which the company holds a 40% interest.

Classic is managed by a management committee consisting of two representatives of the company and two representatives of Classic Animation Ltd. ("CAL"), the 60% shareholder of Classic. A unanimous Shareholders' Agreement provides for joint control of Classic by the company and CAL.

During 1998, the company and Classic entered into an agreement to consolidate the business activities of Classic and CAL by forming a new company and merging with a public company listed on the Alberta Stock Exchange. In 1999, this proposed transaction was terminated.

2 Significant accounting policies

Inventory

Inventory is recorded at the lower of cost, based on the first-in, first-out method, and net realizable value.

Petroleum and natural gas properties

The company follows the full cost method of accounting for petroleum and natural gas properties wherein all costs related to acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Proceeds from the disposal of interests in petroleum and natural gas properties are normally deducted from remaining costs without recognition of gain or loss, except where such disposal constitutes a major portion of the reserves.

The company carries its petroleum and natural gas properties at the lower of net capitalized cost and net recoverable value. Net capitalized cost is calculated as the net book value of the related assets less accumulated provision for site restoration costs. Net recoverable value is limited to the sum of future net revenues from proved properties, and the cost of unproved properties net of provisions for impairment less estimated future financing and administrative expenses and income taxes. Future net revenues are based on prices and costs prevailing at the year end.

Depletion of petroleum and natural gas properties is computed using the unit-of-production method based on estimated proven recoverable petroleum and natural gas reserves. Petroleum and natural gas volumes are converted to equivalent units using their relative heating values.

Capital assets

Capital assets other than petroleum and natural gas properties, are recorded at cost. Depreciation is provided using the following rates and methods:

Buildings	10% per annum diminishing balance
Office and other equipment	20% per annum straight-line
Motorized equipment	30% per annum diminishing balance

Deferred expenditures

Classic capitalizes all costs of developing and producing film properties and charges them to income at the time an undivided interest in and to a developed or produced film property is sold. In the event the film property is commercialized, costs are charged to income based on the ratio of the cost of developing and producing the film property to anticipated future revenues over a maximum of five years. If it is determined that a film property is not commercial, the unamortized costs pertaining to such property are expensed at that time.

The amounts shown as deferred expenditures represent costs to date and do not necessarily represent present or future values.

Goodwill

Goodwill is amortized on a straight-line basis over 10 years commencing from the date of acquisition. The carrying value of goodwill is periodically reviewed by the company and impairments are recognized in earnings from operations if the expected future operating cash flows derived from the acquired business are less than their carrying value.

Stock options

The company does not record compensation expense in respect of stock options granted to directors, officers and employees. The consideration paid by holders of the options upon exercise is credited to capital stock.

Earnings per share

Net earnings per share is calculated using the weighted average number of shares outstanding during the year of 8,508,727 (1998 – 6,166,000). Fully diluted earnings per share is not disclosed as the amount is anti-dilutive.

Joint ventures

The company's oil and gas activities are conducted jointly with other industry partners and accordingly, the financial statements reflect only the company's proportionate interest in such activities.

3 Inventory

	1999	1998
Packaging materials	$ 66,556	$ 63,687
Raw materials	158,589	194,777
Finished goods	218,628	254,434
	443,773	512,898

4 Capital assets

1999	Cost	Accumulated depreciation and depletion	Net
Land	$ 135,063	$ -	$ 135,063
Buildings	32,789	6,620	26,169
Petroleum and natural gas properties	818,594	-	818,594
Office and other equipment	429,467	167,593	261,874
Motorized equipment	139,932	79,609	60,323
	1,555,845	253,822	1,302,023

1998	Cost	Accumulated depreciation and depletion	Net
Land	$ 135,063	$ -	$ 135,063
Buildings	32,789	3,712	29,077
Petroleum and natural gas properties	1,620,109	-	1,620,109
Office and other equipment	466,721	102,088	364,633
Motorized equipment	154,932	50,541	104,391
	2,409,614	156,341	2,253,273

Unproved property costs of $818,594 (1998 – $1,620,109) have been excluded from costs subject to depletion.

During the year, the company relinquished specific unproved properties with a cost of $997,910 in exchange for the extinguishment of $510,881 of accounts payable. A loss of $487,029 arose on this transaction.

5 Notes receivable

	1999	1998
Note receivable, bearing interest at the rate of 12% per annum, compounded annually and repayable monthly, based on instalments of up to $18,994	$ 600,000	$ 600,000
Financial facility fee, terms consistent with note receivable above	125,000	125,000
Note receivable, payable on demand without interest	50,000	50,000
	775,000	775,000
Current portion	(277,933)	(277,933)
	497,067	497,067

The recipient of the $600,000 interest bearing note loaned $500,000 of this balance to Classic.

In connection with the $600,000 note receivable and $125,000 financial facility fee, no interest revenue has been accrued in 1999 (1998 – $35,375).

As consideration for providing the interest bearing note, the company will receive a financial facility fee of $125,000. No income was recognized in connection with this fee in 1999 (1998 – $16,771).

Over the past two years, the company has not received a principal paydown of either the interest bearing note receivable or the financial facility fee. Repayments are to be made by the borrower from the net revenues of oil and gas properties. As a consequence, these amounts are subject to measurement uncertainty and the final resolution of these balances may result in a material adjustment to the financial statements.

6 Deferred expenditures

	1999	1998
Investment in licensed product	$ 242,443	$ 243,326
Projects under production	772,483	1,012,462
	1,014,926	1,255,788

In 1999, Classic capitalized general and administrative costs of $nil (1998 – $147,000).

During the year, the value of deferred expenditures was determined to be impaired and accordingly $240,000 has been expensed to the statement of earnings.

7 Bank debt

The company has an operating line of credit in the amount of $500,000 (1998 – $500,000) which bears interest at the bank's prime lending rate plus 1.5% per annum and is due on demand. The maximum amount that can be drawn against the credit facility is limited to an aggregate of 80% of the accounts receivable balance plus 65% of the inventory balance to a maximum of $540,000. At December 31, 1999, the maximum amount that could be drawn was $500,000 (1998 – $498,924). As at December 31, 1999, an amount of $471,636 (1998 – $438,986) has been drawn on this facility.

The facility is collateralized as described in note 8.

8 Long-term debt

At December 31, 1999, the company had a term loan from a Canadian bank of $108,565 (1998 – $208,334) which bears interest at the three years prime fixed rate of the lender plus 0.5%. The loan is repayable over a term of 36 months through monthly payments of $9,470 and matures January 15, 2001.

2000	$ 103,800
2001	4,765

The term loan and bank debt are collateralized by all present and after acquired property of Elliott. The company has also provided a $150,000 guaranteed investment certificate which is included in cash held in trust pending discharge of the company's obligations.

9 Due to related party

The amount is due to a party related to Classic, bears no interest and has no fixed terms of repayment. The amount due is repayable out of future net income before tax of Classic.

10 Note payable

The note payable bears no interest and has no fixed terms of repayment. Amounts due are repayable, to a maximum of 10%, from future net income before tax of Classic. The holders of the note, who are parties related to Classic, are entitled to compensation, payable solely out of the same future net income only after repayment of amounts to the company. The note becomes due if Classic is advanced financing, whether by debt or equity, in an aggregate amount of $2.5 million.

11 Capital stock

(a) Authorized

An unlimited number of common shares

(b) Issued

	1999		1998	
	Number	Amount	Number	Amount
Common shares				
Balance – January 1	8,431,765	$ 3,242,834	5,694,760	$ 1,613,373
Issued for cash through private placement	355,582	88,895	-	-
Issue costs	-	(21,313)	-	-
Warrants converted into common shares	-	-	2,737,005	1,629,461
Balance – December 31	8,787,347	3,310,416	8,431,765	3,242,834

	1999		1998	
Warrants				
Balance – January 1	-	-	2,237,005	1,364,926
Special warrants	-	-	500,000	399,750
Issue costs	-	-	-	(135,215)
Warrants converted into common shares	-	-	(2,737,005)	(1,629,461)
Balance – December 31	-	-	-	-
		3,310,416		3,242,834

(c) Private placement

On October 13, 1999, the company completed a private placement of 355,582 common shares at $0.25 per share for gross proceeds of $88,895. These shares were issued to an entity of which a director of the company is a partner.

(d) Warrants

During 1998, 2,737,005 warrants were converted into common shares at no additional cost to the warrant holders.

(e) Stock option plan

The company has a share option plan pursuant to which its Board of Directors may allocate options to purchase common shares of the company to directors, officers and employees to a maximum of 10% of the issued and outstanding common shares. The minimum option price is that determined by the rules of any stock exchange to which the company is subject. Options are exercisable for five years and vest on the date of grant. A summary of the company's stock option plan as of December 31, 1999 and 1998, and changes during the years then ended is presented below:

	1999		1998	
	Shares	Weighted-averaged exercise price $	Shares	Weighted-averaged exercise price $
Outstanding – Beginning of year	590,000	0.26	500,000	0.29
Granted	-	-	90,000	0.14
Outstanding – End of year	-	0.26	-	0.26
Exercisable at year end	590,000		590,000	

The following table summarizes information about stock options outstanding at December 31, 1999:

	Options outstanding			Options exercisable	
Range of exercise price $	Number Outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price ($/share)	Number Exercisable	Weighted-average exercise price ($/share)
0.14	90,000	4	0.14	90,000	0.14
0.18	400,000	2.71	0.18	400,000	0.18
0.20 – 0.38	40,000	1.04	0.29	40,000	0.29
1.00	60,000	2.71	1.00	60,000	1.00
	590,000	2.97	0.26	590,000	0.26

12 Income taxes

The provision for income taxes reflects an effective rate which differs from the expected income tax rate of 45% (1998 – 45%). The primary differences are as follows:

	1999	1998
Net (loss) earnings for the year before income taxes	$ (589,969)	$ 144,186
Expected tax at combined federal and provincial rates	(265,486)	64,884
Extinguishment of accounts payable	229,896	-
Non-deductible expenses	180,130	24,820
Resource allowance	10,569	37,721
Other	8,407	(154)
Non-taxable portion of capital gains	-	(72,271)
Provision in financial statements	163,516	55,000

13 Related party transactions

Included in general and administrative expenses are charges from a shareholder for secretarial services of $27,000 (1998 – $18,000), from a director for administrative services for $nil (1998 – $50,310) and from a director for geological and other services for $48,785 (1998 – $50,310).

14 Financial instruments

The company's financial instruments recognized on the balance sheets consist of cash, cash held in trust, accounts receivable and prepaids, inventory, notes receivable, accounts payable and accrued liabilities, credit facility, due to related parties, note payable, and long-term debt. The fair value of financial instruments classified as current assets or current liabilities approximate their carrying amounts due to the short-term maturity of these instruments. The fair value of the notes receivable, credit facility, and long-term debt are not materially different from their carrying amounts since the interest rate approximates a market rate of interest. The amount due to a related party and the note payable are non-interest bearing, and therefore, do not approximate fair value, however, the fair value cannot be reasonably estimated as there are no fixed repayment terms.

15 Commitments

The maintenance of the company's two property interests in Nova Scotia will require the company to incur the following cumulative expenditures:

(a) The company is required to spend a minimum of $85,000 in geophysical expenditures by May 1, 2000 and a minimum of $360,000 must be expended by May 1, 2001, in order to maintain tenure on the first parcel of land.

(b) The company is required to spend $100,000 on exploration before March 1, 2001, and another $1,000,000 on drilling by March 1, 2002, in order to maintain tenure on the second parcel of land. Currently, the company is in the process of filing for a one year extension to the expiration of the exploration agreement. As at December 31, 1999, the company has incurred cumulative expenditures of $33,500 (1998 – $33,500).

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

2000	$ 43,802
2001	44,142
2002	41,199
2003	9,000

16 Segmented information

	Petroleum Lubricants		Petroleum Exploration and Development		Entertainment		Corporate		Consolidated	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
	$	$	$	$	$	$	$	$	$	$
Revenue	1,485,744	1,243,302	-	-	-	-	-	-	1,485,744	1,243,302
Contribution to net (loss) earnings	20,175	(157,412)	(463,501)	44,232	(240,000)	-	(70,159)	202,366	(753,485)	89,186
Identifiable assets	2,334,792	2,447,453	821,860	1,504,835	1,014,926	1,255,788	538,291	520,700	4,709,869	5,728,776

17 Subsequent events

On January 12, 2000, Consolidated Beacon entered into an agreement with a company in the lubricants industry, whereby Consolidated Beacon loaned the company $310,000, which is non-interest bearing and repayable quarterly based on 70% of "Distributable Cash" of the company. As a condition of the loan, Consolidated Beacon has the right to put 930,000 common shares of Consolidated Beacon to the company for 18.6% of the company's outstanding shares.

CONSOLIDATED BEACON RESOURCES LTD.

Officers & Management

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President & Chief Executive Officer

Leonard A. Zaseybida, P.Eng.
Vice President, Treasurer

Nicholas P. Fader, LL.B.
Corporate Secretary

Directors

Vernon E. Gerlitz, B.Comm.
President & Chief Executive Officer
Consolidated Beacon Resources Ltd.

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Landman, Consultant

Charles English, C.A.
President, Charles English Motor Cars

Nicholas P. Fader, LL.B.
Partner, Bennett Jones

Leonard A. Zaseybida, P.Eng.
Vice President, Consolidated Beacon Resources Ltd.

Wholly Owned Subsidiaries
Elliott Industrial Petroleum Ltd.

Auditors
PricewaterhouseCoopers LLP
Calgary, Alberta

Solicitors
Bennett Jones, Barristers & Solicitors
Calgary, Alberta

Evaluation Engineers
Reliance Engineering Company Ltd.
Calgary, Alberta

Registrar & Transfer Agent
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